

# Intelligence MEMOS



From: Benjamin Dachis and Jeremy M. Kronick  
To: Canadian Housing Watchers  
Date: September 15, 2021  
Re: **CAMPAIGN HOUSING PLATFORMS CONCEAL A CENTRAL FLAW**

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All the major political parties have put out their plans to deal with the housing market crises in Canada's cities. The focus is on affordability; how to make home ownership easier for Canadians currently priced out of the market.

But is there much the federal government can do? Unfortunately, the answer is no, with most levers – especially those that will encourage more supply – belonging to lower levels of government.

First, let's understand the constraint on affordability. The amount Canadians pay for their mortgages out of their disposable income is roughly the [same as 30 years ago](#). The constraint in these days of skyrocketing prices is pulling together the necessary down payment.

What measures does Ottawa have control over? Will they even work?

One often-touted idea is a capital-gains tax on the sale of principal residences – the theory being that this will slow demand for houses and condos. While demand might fall, so, too, will supply coming to market. Why? Knowing a sale will trigger a huge tax bill, people will hold onto their homes for longer. Many seniors looking to downsize will stay in their homes, shutting out young families. Thus, the impact of federal tax changes on affordability is [unclear](#).

On the campaign trail we have heard different proposals to loosen financial regulations.

One idea is lowering Canada Housing and Mortgage Corporation mortgage insurance premiums. These premiums cover the risk taxpayers take on.

Another campaign idea is loosening the stress test run by the Office of the Superintendent of Financial Regulations. The stress test ensures borrowers could afford their mortgages if interest rates were to rise.

These measures might help some people get over the affordability threshold. However, they set a bad precedent of governments interfering with Crown corporations and regulatory authorities that are meant to operate at arm's length. The non-elected officials at these organizations have set insurance premiums and stress tests to ensure the stability of our financial system – that is their mandate. So, in the name of improved affordability, any loosening is going to increase taxpayer or financial system risk. Not a good tradeoff.

Lastly, low interest rates increase house prices. There is no way around that. And the federal government has no control over interest rates. That is the job of the Bank of Canada, which responds to market forces – outside the control of the government – to keep inflation low.

All this means that federal levers mostly increase demand, and, critically, prices. They will either be ineffective, will go against basic principles of our Crown corporations and regulatory authorities operating at arm's length, or are a product of the economic environment we live in.

So, what can be done? And is there any role for the federal government?

The crux of the affordability debate has been a lack of supply. But local politics still work against real measures to increase supply and have created restrictions on development that [add enormously](#) to the cost of housing. Local council members depend on local votes. And local voters usually oppose new construction. This is a fundamental problem.

Ottawa could require an expedited approval process for areas that benefit from federal infrastructure grants. Toronto, for example, is far [behind the rest](#) of the world in permit delays. Local governments need to change their practices to speed development, even beyond where new federally subsidized transit goes.

For example, Ontario has an [off-the-shelf tool](#) to expedite development. It needs to make the final call on whether to use it. The federal government can only prod it to do so. The province also needs to enforce its own policies to ensure cities approve enough homes to accommodate growth.

Cities also levy large upfront development fees. The result is [higher housing prices](#). Cities should not make homebuyers pay in advance for infrastructure, such as water, but instead make them pay the costs over time as they use it. Cities also need to move away from paper-based development approvals and [toward e-permitting](#). At best, the federal government can help finance some of this. But again, it is cities that must make the move.

Provincial and Toronto land transfer tax cuts will help affordability. These taxes are like capital gains taxes, keeping people from [selling and reducing supply](#).

Our federal parties are right to want to improve affordability. But, the reality is that the balance of power belongs to the cities and provinces. Time for them to step up.

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